

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-10 IO-14 PA-04 PRS-01 USIA-15

AID-20 CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00

RSC-01 XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01

OMB-01 NSC-10 SS-20 STR-08 CEA-02 DRC-01 L-03 H-03

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R 060845Z DEC 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9584

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/31/74

TAGS: EAID, EFIN, RP

SUBJ: PROPOSED ADB LOAN FOR PRIVATE DEVELOPMENT CORPORATION
OF PHILIPPINES

SUMMARY: ADB MANAGEMENT PROPOSED \$25.0 MILLION
EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO
PHILIPPINE NATIONAL BANK FOR RELENDING TO PRIVATE
DEVELOPMENT CORP OF THE PHILIPPINES (PDCP) TO AUGMENT
FOREX RESOURCES OF PDCP TO MEET 1974-1975 CREDIT RE-
QUIREMENTS OF PRODUCTIVE ENTERPRISES IN PRIVATE
SECTOR. THIS WOULD BE THIRD BANK LOAN FOR PDCP.
USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC R114-73 WITH ATTACHMENTS DESCRIBING
PROPOSED LOAN POUCHES ADDRESSEES NOV. 29. BOARD CONSID-
ERATION SCHEDULED DEC. 21.

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2. ADB MANAGEMENT PROPOSING \$25.0 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO PHILIPPINE NATIONAL BANK (PNB) FOR RELENDING TO PDCP. PROCEEDS WILL ASSIST PDCP TO MEET FOREX REQUIREMENTS IN 1974-1975 FOR LOANS TO PRODUCTIVE ENTERPRISES IN PHILIPPINES. AMORTIZATION TO CONFORM SUBSTANTIALLY TO AMORTIZATION OF SUB-LOANS FINANCED FROM BANK LOAN, WITH MAXIMUM OF 15 YEARS FROM DATE LOAN ACCOUNT IS CREDITED, INCLUDING GRACE PERIOD NOT EXCEEDING THREE YEARS. INTEREST RATE TO BE RATE PREVAILING AT TIME LOAN AMOUNTS ARE CREDITED TO LOAN ACCOUNT. PNB TO BE BORROWER AND REPUBLIC OF PHILIPPINES THE GUARANTOR. (BECAUSE PDCP IS PRIVATELY OWNED AND CONTROLLED AND GOVT MAY GUARANTEE LOANS ONLY TO GOVT-OWNED OR CONTROLLED ENTITIES, LOAN WILL BE CHANNELLED THROUGH GOVT-CONTROLLED PNB, AS WAS DONE FOR TWO PREVIOUS BANK LOANS.)

3. PDCP IS A LEADING PRIVATE LONG-TERM LENDING INSTITUTION IN PHILIPPINES AND ONLY PRIVATE DEVELOPMENT INSTITUTION RECEIVING CREDIT LINES IN FOREIGN EXCHANGE FROM INTERNATIONAL FINANCIAL INSTITUTIONS. IT'S SHARE IN TOTAL LOANS OUTSTANDING FROM PRIVATE NON-BANKING FINANCIAL INSTITUTIONS HAS STEADILY INCREASED, FROM 69 PERCENT IN 1969 TO ALMOST 74 PERCENT IN 1972. PDCP WAS INCORPORATED ON FEB. 6, 1963 WITH SUPPORT OF WORLD BANK GROUP. INTERNATIONAL FINANCE CORP SUBSCRIBED TO SOME OF PDCP'S CAHBTAL STOCK, WHICH WAS SUBSEQUENTLY SOLD TO LOCAL INVESTMENT HOUSE. LOAN OPERATIONS ARE MAJOR ASPECT OF PDCP' ACTIVITIES; WITH EQUITY INVESTMENTS, UNDERWRITINGS, GUARANTEES AND SYNDICATION PLAYING LESSER ROLES. RECENT EMPHASIS WAS TOWARDS ASSISTANCE TO MEDIUM AND SMALL FIRMS.

4. AUTHORIZED CAPITAL OF PDCP IS P60 MILLION (\$1.00-P6.68)

PAID-UP CAPITAL INCREASED FROM INITIAL P40.25 MILLION, AS RESULT OF TWO STOCK DIVIDENDS AND SHARE OFFER TO STOCKHOLDERS IN 1970 AND 1971. AT LEAST 70 PERCENT OF SHARE CAPITAL MUST BE OWNED BY PHILIPPINE CITIZENS. WHILE GOVT IS NOT SHAREHOLDER AND DOES NOT EXERCISE DIRECT CONTROL OVER DAY-TO-DAY OPERATIONS, PDCP OPERATES WITHIN GENERAL ECONOMIC GUIDELINES FORMULATED BY GOVT. ALSO, PNB, WHICH LIMITED OFFICIAL USE

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IS GOVT-CONTROLLED BANK, NOMINATES DIRECTOR TO PDCP BOARD. CENTRAL BANK APPROVAL OF SUB-LOANS NECESSARY TO ENSURE THAT FOREX DEBT SERVICE REQUIREMENT FOR ANY GIVEN YEAR DOES NOT EXCEED 20 PERCENT OF COUNTRY'S FOREX RECEIPTS IN PRECEDING YEAR. PREVIOUSLY PDCP COULD FINANCE ONLY GOVT-APPROVED PROJECTS IN INDUSTRIAL AND AGRICULTURAL SECTORS; HOWEVER, RECENTLY ENACTED PRESIDENTIAL DECREE EXTENDS AUTHORITY TO OTHER SECTORS SUCH AS POWER, COMMUNI-

CATIONS AND TRNSPORT.

5. PDCP'S ORIGINAL RESOURCES CONSISTED OF P25 MILLION PAID-IN SHARE CAPITAL, A LONG TERM LOW INTEREST P27.5 DRMILLION USAID LOCAL CURRENCY LOAN AND \$15.0 MILLION IBRD CREDIT LINE. USAID LOAN IS SUBORDINATED TO PDCP'S INITIAL SHARE CAPITAL AND ALL OUTSTANDING DEBTS. TO DATE, PDCP HAS OBTAINED TWO FOREIGN CURRENCY CREDIT LINES TOTALING \$20 MILLION FROM BANK (IN 1969 AND 1970), THREE FROM IBRD (IN 1963, 1966 AND 1969) TOTALING \$65 MILLION, AND ONE OF \$15 MILLION IN 1972 FROM IFC FOR OVERALL TOTAL OF \$100 MILLION.

6. PDCP'S ELEVEN-MEMBER BOARD OF DIRECTORS IS COMPOSED OF LEADING INDUSTRIALISTS AND BANKERS, EIGHT OF WHOM MUST BE PHILIPPINE CITIZENS. SEE APPENDIX 3 FOR LIST OF MAJOR SHAREHOLDERS, PHILIPPINE AND FOREIGN.) CORP WAS REORGANIZED IN 1971 AND 1972 FOR GREATER OPERATIONAL EFFICIENCY, WHICH HAS STREAMLINED OPERATIONS AND RESULTED IN GREATER EFFICIENCY AND COORDINATION. ALL SENIOR EXECUTIVES ARE WELL-QUALIFIED AND COMPETENT AND HAVE BEEN WITH PDCP FOR MANY YEARS.

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-10 IO-14 H-03 L-03 PRS-01

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FOR NAC AGENCIES

7. IN PAST, PDCP CATERED ESSENTIALLY TO MEDIUM AND LARGE SIZE ENTERPRISES. BEGINNING FEB 1972, PDCP INITIATED SPECIAL FINANCIAL ASSISTANCE PROGRAM FOR SMALL SCALE INDUSTRIES. AT SUGGESTION OF IFC, A CHANGE IN 1973 REQUIRED PDCP, CONSISTENT WITH MAIN OBJECTIVES, TO GIVE PRIORITY TO INCREASE IN NUMBER OF ENTERPRISES IT FINANCES, ASSIST MEDIUM AND SMALL AS WELL AS LARGE FIRMS AND TO DIVERSIFY OWNERSHIP OF CLIENT ENTERPRISES. PDCP IS TRYING TO DIVERSIFY ITS LOAN ACTIVITIES, BUT MORE THAN 60 PERCENT STILL CONCENTRATED IN GREATER MANILA AND ON ISLAND OF LUZON. MANUFACTURING SECTOR ACCOUNTS FOR MAJOR PORTION OF LOANS, ALTHOUGH PROPORTION TO AGRICULTURE SECTOR HAS INCREASED IN LAST THREE YEARS (APPENDIX 12).

FORTY PERCENT OF PORTFOLIO CONSISTS OF EXPORT-ORIENTED INDUSTRIES, WITH IMPORT-BASED INDUSTRIES AND PUBLIC UTILITIES IN POWER AND TRANSPORT SECTORS BEING OTHER MAJOR LIMITED OFFICIAL USE

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BORROWERS. (SEE APPENDICES 25 AND 26 FOR PROJECTS FINANCED TO DATE UNDER TWO PREVIOUS ADB LOANS.)

8. INTEREST RATES ON FOREIGN CURRENCY LOANS WHICH WERE 11 PERCENT IN 1970, WERE RECENTLY RAISED TO 11.75 PERCENT ON SWISS FRANC COMPONENT OF IFC LOAN AND 11.5 PERCENT UNDER BANK'S SECOND LOAN. RATES ALLOW 3.0 PERCENT SPREAD ON IFC LOANS AND 3.4 PERCENT ON BANK'S LOAN.

9. PDCP'S OPERATIONS CONTINUE TO BE PROFITABLE AND FINANCIAL POSITION CONSIDERED SATISFACTORY. SHARE CAPITAL IS PROJECTED TO INCREASE IN 1974 AND 1975. DEBT/EQUITY RATIO OF 5.42:1 IN JUNE 1973 WAS WITHIN 6:1 LIMIT ESTABLISHED UNDER BANK'S SECOND CREDIT LINE. LIMIT OF 7.5:1 RECOMMENDED FOR PROPOSED LOAN. PDCP'S ARREARAGE POSITION HAS IMPROVED. TOTAL OVERDUES AS OF AUG. 31, 1973 WERE ABOUT 2.8 PERCENT OF TOTAL LOANS OUTSTANDING IN REPAYMENT STAGE. WITH ONE EXCEPTION, PDCP HAS NOT FORECLOSED ANY SECURITY OR PUT ANY BORROWER INTO LIQUIDATION, AND NO LOAN HAS BEEN WRITTEN OFF.

10. PDCP HAS FULLY COMMITTED ALL THREE CREDIT LINES FROM IBRD AND FIRST BANK LOAN. PDCP'S BOARD HAS APPROVED PROPOSALS THAT WILL FULLY UTILIZE BANK'S SECOND LOAN BEFORE END 1973 AND INTENDS TO MEET ITS 1974 AND PART OF

1975 REQUIREMENTS FROM UNUTILIZED BALANCE (\$10.5 MILLION) OF IFC'S \$15 MILLION LOAN AND PROPOSED \$25 MILLION BANK LOAN. FOREX REQUIREMENTS FOR REMAINING PART OF 1975 AND BEGINNING OF 1976 PROPOSED TO BE MET FROM SECOND IFC CREDIT LINE OF \$15 MILLION AND POSSIBLE \$5 MILLION U.S. EXIM BANK LOAN. PDCP'S LOCAL CURRENCY RESOURCES, WHICH HAVE BEEN DIFFICULT TO RAISE IN PAST, WERE INCREASED IN 1971 BY P10.5 MILLION THROUGH INCREASES IN PAID-IN CAPITAL AND SURPLUS. MAJOR PART OF 1974-1975 LOCAL CURRENCY REQUIREMENTS EXPECTED TO BE MET FROM P16 MILLION INCREASE IN SHARE CAPITAL IN 1974, BORROWING OF P10 MILLION AND P4 MILLION ISSUANCE OF ADDITIONAL NOTES AND DEBENTURES.

11. CURRENCY REALIGNMENTS AND PRICE INFLATION HAVE REDUCED REAL VALUE OF FREE LIMIT OF SUB-LOANS AND LIMITS IN RESPECT OF PROCUREMENT ESTABLISHED UNDER SECOND BANK LIMITED OFFICIAL USE

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LOAN FOR PDCP, WHILE AVERAGE SIZE OF PENDING FOREIGN CURRENCY LOAN APPLICATIONS IS NOW ABOUT \$800,000. HENCE, BANK RECOMMENDS THAT FOLLOWING LIMITS SHOULD APPLY FOR SUB-LOANS UNDER PROPOSED THIRD CREDIT: (A) FREE LIMIT TO BE RAISED FROM \$500,000 TO \$750,000 AND (B) PROCUREMENT LIMITS ON INTERNATIONAL COMPETITIVE BIDDING TO BE RAISED FROM \$800,000 TO \$1,000,000 OR MORE; ON INTERNATIONAL SHOPPING FROM \$400,000-\$800,000 TO \$500,000-\$1,000,000; AND ON COMPETITIVE PRICES BASIS RAISED FROM \$400,000 TO \$500,000 OR LESS. USADB STRONGLY SUPPORTS RAISING THE PROCUREMENT LIMITS, AS BANK EXPERIENCE TO DATE WITH DEVELOPMENT BANK SUB-LOANS INDICATES THAT U.S. FIRMS DO MUCH BETTER WHEN INTERNATIONAL COMPETITIVE BIDDING NOT REPEAT NOT REQUIRED.

12. USADB BELIEVES ADEQUATE JUSTIFICATION EXISTS FOR PROPOSED THIRD BAN LOAN FOR PDCP. INSTITUTION APPEARS TO BE EFFICIENT AND WELL RUN AND IS CONTRIBUTING TO DEVELOPMENT OF PRIVATE ENTERPRISE IN PHILIPPINES. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

13. USADB REQUESTING U.S. MISSION PHILIPPINES CABLE COMMENTS FOR NAC AGENCIES, PURSUANT TO STATE 119795 DTD 3 JULY 1972.
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